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SUBJECT: (Optional)

Report to Congress on

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FROM:

O/Comptroller

EXTENSION

DATE

1 June 1984

TO: (Officer designation, room number, and building)

DATE

RECEIVED

FORWARDED

OFFICER'S
INITIALS

COMMENTS (Number each comment to show from whom to whom. Draw a line across column after each comment.)

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Transmitting letters for
ADCI signature. Please call
Kim [] when they have
been signed.

Thanks

3-4: My letter responds to D/ICS
request. The letters for your
signature to []

[] go beyond the ICS
request. Line has already
requested exemption for NSA;
I strongly encourage you to
sign the enclosed exemption
requests for CIA.

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Central Intelligence Agency



Washington, D. C. 20505

25X1 MEMORANDUM FOR: [REDACTED]
 Director, Intelligence Community Staff

25X1 SUBJECT: Report to Congress on ADPE Acquisition [REDACTED]

25X1 REFERENCES: A. Memorandum for [REDACTED] CIA Program Manager, et
 25X1 al., from [REDACTED] D/P&BS/ICS,
 dtd 14 Feb 1984, Subj: Congressional Concerns on ADP
 Acquisition (DCI/IC 84-3519)

25X1 B. Memorandum for [REDACTED] C/IHG/Compt/CIA, et al.,
 25X1 from [REDACTED] P&BS/ICS, dtd 14 Mar 1984, Subj:
 Report to Congress on ADPE Acquisition
 (DCI/IC 84-3940) (FOUO)

1. This memorandum transmits the results of a review of certain aspects of CIA automatic data processing equipment (ADPE) acquisition. This review was requested by the Appropriations Committees; follow-up tasking was provided to all NFIP agencies via the references. The results of our review may be summarized as follows:

- Only 11 CIA program ADPE contracts exist utilizing the lease or installment purchase method of acquisition for which a 1 January 1985 buy-out would result in system life discounted savings. For these systems, the total discounted savings over five years resulting from a fiscal year 1985 buy-out would be approximately [REDACTED] (Almost 85 percent of these savings would come from the buy-out of two leased systems.) The 1985 component of these savings represents less than 0.4 percent of planned 1985 CIA ADPE expenditures of approximately [REDACTED]. Achieving these system life discounted savings would require almost [REDACTED] of additional (unbudgeted) funds in 1985.
- Congressional recommendations to limit the use of lease and installment purchase procurement options, though well-intentioned, are

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shortsighted. Lease is without question appropriate when economic analysis indicates it will result in the lowest overall evaluated cost to the Government over the system life. Similarly, installment purchase is an important option that increases our leverage over vendors, allows us to avoid budget "spikes" and, when subjected to a discounted cost analysis, often turns out to be less costly than outright purchase. Finally, the installment purchase option permits us to react quickly and cost-effectively to crisis situations. The loss of one or both of these options would curtail our management and budgeting flexibility, contribute to technological obsolescence, and probably wind up costing the taxpayers money.

- Additional Congressional constraints on and review of sole source procurement are unrealistic and would be counter-productive. Sole source procurement, though not preferred, is occasionally the only feasible procurement approach. Existing Government-wide and Agency regulations provide for this approach and those regulations should not be altered. To do so could seriously inhibit our ability to satisfy, in a timely manner, critical national security requirements; risk disclosure of sensitive national security information; cause unnecessary Government and vendor expenditures; and erode confidence in our procurement system. [redacted]

2. Overall, we are convinced that CIA's present ADPE acquisition policies, regulations, and procedures are cost-effective. Though sympathetic with Congressional intent, we believe that the proposed changes will create artificial impediments to the performance of our mission. Consequently, we will seek exemption from the proposed Congressional limitations on funding options and sole source procurement. [redacted]

3. If there are further questions, please do not hesitate to contact me or my staff. [redacted]

[redacted]
Executive Director

Attachment:
As stated

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Attachment

Report to Congress on ADPE Acquisition [REDACTED]

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FY 1985 ADPE Buy-out Opportunities

1. At the request of Congress, we performed an Agency-wide review of ADP equipment (ADPE) lease and installment purchase contracts to identify 1985 buy-out opportunities. Excluded was ADPE already scheduled for a 1985 or earlier buy-out, or ADPE with an 1985 purchase price of less than [REDACTED]. Based on this review, [REDACTED] systems or major items were identified with a total 1985 ADPE lease or installment payment due of [REDACTED]. This latter figure represents approximately 36 percent of all planned Agency 1985 ADP equipment expenditures. [REDACTED]

2. Of the [REDACTED] systems identified, [REDACTED] were covered by installment purchase agreements known as alternate or annual payment plans (APPs) with a 1985 payment due of [REDACTED]. Another six of the [REDACTED] systems were straight lease contracts with a combined 1985 lease payment of [REDACTED]. The remaining [REDACTED] systems were under lease-to-ownership or lease-with-option-to-purchase plans valued at [REDACTED] in 1985. [REDACTED]

3. A discounted cost analysis was performed on the equipment items noted above using the 10 percent discount rate called for in existing acquisition regulations. Annual factors were taken from Department of Defense Instruction 7041.3, Economic Analysis and Program Evaluation for Resource Management, 18 October 1972. [REDACTED]

4. The ratio of the discounted lease or installment purchase cost over the system life to the equivalent cost assuming a 1 January 1985 buy-out also was calculated and used as a ranking factor. For the 11 items displayed in Table 1, the ranking factor is greater than one. Only these items have a buy-out less costly than continued lease or installment purchase. If the current procurement options are maintained, these [REDACTED] items will cost [REDACTED] in 1985. This represents less than 12 percent of the applicable 1985 ADPE lease and installment purchase funds. If an additional [REDACTED] could be found in 1985 for a buy-out, undiscounted savings of approximately [REDACTED] discounted, could be achieved. (Only the first two of the [REDACTED] items have system life discounted savings of over [REDACTED] and they account for almost 85 percent of the total potential savings.) [REDACTED]

5. The [REDACTED] discounted savings occur over a five year period, and therefore are equivalent to savings of approximately [REDACTED] per year. To put these savings figures in perspective, ADP equipment expenditures (all procurement methods) in 1985 are approximately [REDACTED]. The estimated maximum annual discounted savings therefore are less than 0.4 percent of 1985 ADP equipment expenditures. [REDACTED]

6. The limited potential savings, we believe, are indicative of the soundness of the CIA's ADPE funding strategy. We generally use lease sparingly, only when it makes economic sense. We use installment purchase

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more frequently since it generally is cost-effective, plus it has certain management and budgeting advantages over outright purchase. (The rationale behind our lease and installment purchase strategy is presented in more detail in the next section.) We will continue to monitor the identified contracts for savings opportunities. Supplemental funding will be required in 1985, however, if we are to effect the identified savings.

Lease and Installment Purchase Acquisition Options

7. Based on current planning, the CIA will spend an estimated 54 percent of its 1985 ADP equipment budget for the outright purchase of equipment, 31 percent for installment purchase, and the remaining 15 percent for equipment lease. Congress has proposed restrictions on procurement options other than outright purchase. We believe such restrictions are not in the best interest of the Government.

8. Lease typically turns out to be advantageous when the equipment system life is relatively short. A system is assigned a short system life when the technical or programmatic requirement is short lived, new technology of uncertain performance or applicability is being evaluated, or technical obsolescence is imminent (that is, superior equipment is expected to be available in the near term). Under these circumstances, lease is almost always cost-advantageous compared to alternate procurement methods.

9. Installment purchase plans (primarily alternate or annual payment plans--APPs) generally are preferred in longer system life situations. Installment purchase will frequently evaluate lower than outright purchase (using the standard 10 percent discount rate). In addition, installment purchase has several other very important advantages. Under certain circumstances, the equipment may be returned to the vendor at no penalty to the Government. Thus, should the Congress not fund a program, for example, the equipment could be returned. The continuing financial relationship between the Government and the vendor serves also as an incentive for the latter to provide a maximum effort in support of the equipment. Another important advantage in the use of installment purchase is it avoids difficulties associated with large swings in budget requests. The difficulties in obtaining large amounts of purchase funds would encourage the retention of obsolete equipment and erode our technological base. Lastly, in the situation where the Agency is faced with an unplanned new long-term requirement, the installment purchase option is invaluable. Equipment can be installed for relatively modest initial payments thereby permitting the necessary quick reaction and avoiding expensive long-term leasing, or the difficulties associated with seeking supplemental appropriations.

10. Another important point should be made on the relationship between technological obsolescence and procurement funding strategy. The demanding nature of Agency ADP activities frequently requires the use of state-of-the-art ADP equipment. This equipment generally offers the only prospect of meeting the exceptionally stringent performance and availability

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25X1 requirements associated with the timely manipulation of massive amounts of intelligence data. Unfortunately, use of state-of-the-art equipment generally implies the acceptance of what amounts to considerable technical and cost risk. The only responsible way to manage this risk is through the use of procurement options such as lease and installment purchase. Otherwise the Agency is at risk, on the one hand, of technological obsolescence stemming from a reluctance or inability to financially commit to the purchase of costly new technology, or, on the other hand, of being saddled with ownership of a "white elephant" should the technology not prove itself. Therefore, having lease and installment purchase options available is absolutely vital to the responsible management of state-of-the-art ADP activities. []

Competitive Acquisition

25X1 11. Congress has proposed a policy to drastically limit sole source procurement. Agency policy strongly supports the competitive acquisition of ADP equipment. Regulations and procedures, both Government-wide and Agency, require ADPE to be procured competitively unless an explicit and detailed justification is provided. Many valid technical or operational situations exist, however, that do not meet the strict "national exigency" criterion proposed by Congress but do clearly justify acquisition on a sole source basis. Examples include unique technical or programmatic requirements, extreme time sensitivity, sensitive operational situations, or low value procurements, where the cost of competition would clearly outweigh any conceivable savings. In situations such as these, the sole source procurement option is both essential and supported by existing Government and Agency regulations. Any changes to existing regulations that foster "competition for competition's sake" clearly would not be in the best interest of the Government, or for that matter, the vendor community. In those situations where sole source can be fully justified under existing procedures, engaging in an expensive but essentially artificial competition would be mismanagement. Moreover, when security or time sensitivity is an overriding requirement, the drastic limitation of sole source procurement would lessen our ability to fulfill our national security mission. We, therefore, must strongly recommend that existing competitive procurement regulations not be modified. []

25X1 12. With respect to reviewing sole source acquisitions, the Agency has for many years had a thorough internal procedure for that purpose. All procurement actions above \$500,000 in contract value must be approved by the Director of Logistics. To assist him in this task, the Agency has an advisory board, known as the Agency Contract Review Board (ACRB), made up of senior managers from all directorates. This board reviews all acquisitions, competitive or sole source, ADP or otherwise, that meet the \$500,000 Director of Logistics approval threshold. Furthermore, Agency regulations and procedures require that all sole source procurement actions with contract value greater than \$25,000 have at least one additional level of review above that of the contracting officer with direct responsibility. Thus all sole source contract actions of significance are approved by senior contracting personnel. These procedures provide, in our view, the proper balance between

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oversight and management autonomy. Additional review, as suggested by Congress, either external or by senior Agency management, would be counter-productive. It would diminish the efficiency and timeliness of the contracting process, and erode the responsibility of contracting officers and cognizant technical personnel. []

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Other Congressional Concerns

13. Congress requested that an ADPE inventory be developed and maintained. The Office of Data Processing (ODP) has instituted a project to update the existing Agency-wide ADPE inventory. The inventory is somewhat outdated because resources to maintain it have not been available. Congress also wants assurances that ADP equipment is being efficiently reutilized when no longer needed by an activity. Agency regulations require that all ADP equipment when it nears the end of its system life be reviewed by ODP for possible reassignment within the Agency. (Excess ADPE is turned over to the General Services Administration for Government-wide reutilization). Rigorously enforced property management procedures have ensured that this ODP expert review has occurred prior to any ADP equipment leaving Agency control.

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14. Finally, Congress expressed concern that contracting officers receive sufficient training in ADP procurement so they can effectively protect the Government interest. We believe our current contracting officer training program is appropriate in this regard. Formal training is supplemented by extensive on-the-job training. This is made possible by the existence of a branch within our Office of Logistics whose sole responsibility is ADP procurement. New personnel receive on-the-job ADP procurement training from more experienced branch members. We believe the mix of formal and on-the-job training is appropriate for developing expertise in the difficult ADP procurement specialty. []

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